

**THE IMPACT OF DIVIDEND TAX CHANGES ON THE PERFORMANCE
OF MALAYSIAN REITS**

BY

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Othman Yeop Abdullah Graduate School of Business

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DECLARATION

I declare that the substance of this project paper has never been submitted for any degree or postgraduate program and qualifications.

I certify that all the support and assistance received in preparing this project paper and the entire source abstracted have been acknowledged in this stated project paper.

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ABSTRAK

Karya ini merupakan kajian empirikal yang pertama untuk mengkaji kesan cukai dividen terhadap prestasi REIT di Malaysia. Bajet tahunan 2007, 2009 dan 2011 yang diumumkan oleh kerajaan Malaysia memaklumkan bahawa potongan cukai dividen bagi sektor REIT menawarkan peluang kepada penyelidik untuk mengkaji kesan cukai ke atas prestasi harga dan kecairan REIT. Daripada hasil keputusan yang telah dilakukan, penyelidik mendapati bahawa pengumuman pemotongan cukai dividen yang dibuat pada tahun 2006 dan 2008 mengakibatkan reaksi harga saham yang positif. Justeru, CAARs adalah signifikan pada aras 10% dalam pengumuman pertama dan kedua. Manakala, CAARs untuk pengumuman ketiga bagi cukai dividen pada tahun 2011 adalah tidak signifikan. Keputusan ini menyokong hipotesis bahawa pengumuman pemotongan cukai dividen akan meningkatkan kekayaan REIT kerana cukai adalah salah satu bentuk kos urusniaga. CAARs untuk pengumuman ketiga tidak signifikan mungkin disebabkan oleh tiada pemotongan cukai dividen yang dikenakan dan tiada maklumat baru diumumkan oleh pihak kerajaan. Pengumuman ketiga hanya memanjangkan tempoh cukai dividen pada kadar yang sama untuk empat tahun yang seterusnya sehingga tahun 2016. Walau bagaimanapun, saya tidak mendapati sebarang bukti untuk menyokong hipotesis bahawa pemotongan cukai dividen akan meningkatkan kecairan REIT.

Kata kunci: cukai, volum dagangan, CAAR, pengumuman, saham bebas, pemilikan, saiz, tahun, turun naik, prestasi.

ABSTRACT

This is the first empirical research examining the effects of dividend taxes on the performance of real estate investment trusts (REITs) in Malaysia. The Malaysian government's announcement of remissions of dividend tax for the REIT sector under the 2007, 2009 and 2011 budgets, provide an excellent but rare opportunity to examine the impact of taxation on stock price performance and stock liquidity. It can be concluded that dividend tax cut announcements made in 2006 and 2008 resulted in a positive stock price reaction from the stock market. The cumulative average abnormal returns (CAARs) are significant at the 10% level across the three event windows. The CAARs for dividend tax remission announced in 2011, on the other hand, are not significantly different from zero. These results support the hypothesis that the announcement of dividend tax reductions increases the wealth of REITs because tax is a form of transaction cost. The insignificance of third announcement CAARs could possible due to lack of new information as it merely extended the dividend tax benefits for another 4 years until 2016. It is also verified that there were no evidence to support the hypothesis that dividend tax cuts will increase the liquidity of REIT shares as proxied by shares trading volume.

Keywords: Dividend Tax, Trading Volume, REITs, Liquidity, Performance

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TABLES OF CONTENTS

DECLARATION.....	III
PERMISSION TO USE.....	IV
ABSTRAK.....	V
ABSTRACT.....	VI
ACKNOWLEDGEMENT.....	VII
LIST OF APPENDICES.....	XI
LIST OF TABLES.....	XII
LIST OF EXHIBIT.....	XIII
 CHAPTER ONE.....	 1
1.0 Introduction.....	1
1.1 Overview and Background of REIT in Malaysia	2
1.2 Problem Statement	8
1.3 Research Questions.....	10
1.4 Research Objectives.....	10
1.5 Significance of the Study.....	11
1.6 Scope and Limitation of the Study.....	11
1.7 Organization of the Thesis.....	12
 CHAPTER TWO.....	 13
2.0 Introduction.....	13
2.1 Review of the Literature.....	13
2.1.1 Tax and Trading volume.....	13
2.1.2 Free float of REIT and Trading volume.....	14
2.1.3 Institutional Ownership and trading volume.....	15
2.1.4 REIT Size and Trading volume.....	16
2.1.5 REIT Age and Trading volume.....	17

2.1.6	Volatility and Trading volume.....	17
2.1.7	REIT performance and trading volume.....	18
CHAPTER THREE.....		19
3.0	Introduction.....	19
3.1	Research Strategies.....	19
3.2	Hypotheses Development.....	20
3.3	Research Framework.....	22
3.3.1	The profile of REIT Investors' Reaction.....	22
3.3.2	The Determinants of REIT Trading volume.....	22
3.4	Measurement of Variables.....	23
3.4.1	REIT trading volume.....	23
3.4.2	Tax.....	23
3.4.3	REIT Free float ratio.....	23
3.4.4	Institutional Ownership.....	23
3.4.5	REIT Size.....	23
3.4.6	REIT Age.....	23
3.4.7	Volatility.....	24
3.4.8	REIT performance.....	24
3.5	Methodology.....	24
3.5.1	Event Study Method.....	24
3.5.2	OLS Method.....	26
3.5.3	Diagnostic checking.....	27
3.5.3.1	Heteroscedasticity.....	27
3.5.3.2	Multicollinearity.....	28
3.6	Data Collection.....	28

CHAPTER FOUR.....	29
4.0 Introduction.....	29
4.1 Data and Summary Statistics.....	29
4.2 Ordinary Least Square regressions.....	36
4.3 Diagnostic checking.....	39
4.3.1 Heteroscedasticity.....	39
4.3.2 Multicollinearity.....	41
ANOVA.....	43
CHAPTER FIVE.....	44
5.0 Introduction.....	44
5.1 Conclusion.....	44
5.2 Implications.....	46
5.3 Recommendations for Future Research.....	47
REFERENCES.....	48

LIST OF APPENDICES

OLS Regression.....	59
Heteroskedasticity White's Test.....	60
Heteroskedasticity Breusch-Pagan Test.....	61
Heteroskedasticity Breusch-Pagan Test (Koenker robust variant).....	61
ANOVA.....	62

LIST OF TABLES

Table 1.1: Malaysia REIT Performance as at 17 Apr, 2015	5
Table 1.2: Malaysia Current REIT Withholding Tax Table.....	7
Table 3.1: Malaysia REIT Withholding Tax Changes Table.....	20
Table 4.1: Market capitalization of REITs.....	30
Table 4.2: 21 days average abnormal returns based on KLCI benchmark surrounding 1st budget announcements.....	31
Table 4.3: 21 days average abnormal returns based on KLCI benchmark surrounding 2nd budget announcements.....	32
Table 4.4: 21 days average abnormal returns based on KLCI benchmark surrounding 3rd budget announcements.....	33
Table 4.5: CAAR for 3 Event Windows.....	34
Table 4.6: Estimation results of robustness tests with different dependent variables in the regression models.....	36
Table 4.7: Group Statistics.....	38
Table 4.8: Independent Samples Test.....	39
Table 4.9: Estimation results of robustness tests with robust standard error test in the model 3.....	41
Table 4.10: Correlation matrix of the explanatory variables.....	42
Table 4.11: Variance Inflation Factors (VIF).....	42

LIST OF EXHIBIT

Exhibit 1.1	Malaysia REIT by assets type as at 17, April, 2015.....	6
Exhibit 1.2	S&P GLOBAL REIT Index by assets type as at 31 March 2015....	6
Exhibit 4.1	REIT Cumulative average abnormal returns for 1st Event.....	35
Exhibit 4.2	REIT Cumulative average abnormal returns for 2nd Event.	35
Exhibit 4.3	REIT Cumulative average abnormal returns for 3rd Event.....	35

CHAPTER ONE: Introduction

1.0 Introduction

This chapter presents the overview and background of Real Estate Investment Trusts (REITs), problem statement of the study, research objectives which consist of general and specific objectives, research questions, hypotheses of the study, significance of the study, scope and limitation of the study and chapter layout.

REITs are entities that own income producing real estate such as commercial buildings and apartments and derive most of their income from rentals. REITs provide investors a stable stream of dividend income since rental incomes tend to be fixed in the short-run. Similar to other unit trust funds, REITs offer diversification benefits and long term capital appreciation. REITs facilitate retail investors to invest in commercial properties through the purchase of REIT shares. Investors could earn a share of the income produced through REITs without having to own the property.

One of the uniqueness of REITs as compared to general stocks, is that it has conditional tax exemption status. REITs do not have to pay corporate taxes as long as they distribute 90% of their taxable income as dividends to the shareholders. The tax exemption status has been used by regulators world-wide to spur the growth of the REIT sector in their respective countries. Malaysia is the first Asian country to introduce property trusts. The first property trust was listed on the Kuala Lumpur Stock Exchange (KLSE) in year 1989. The purpose of introducing this investment vehicle was to provide the small investors an avenue to invest in the local property sector. However, the property trust sector never really took off due to the absence of

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